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Guest Article

Fast and Furious: Early Agreement on Fair and Equitable Financing is Key to Post-2012 Treaty

*By Romina Picolotti, Argentina's Minister of Environment**

The challenge of climate change is a race towards the climate-safe future. We must run to reach the finish line. Accelerating feedbacks hold us back, threatening us with irreversible climate change, including the collapse of the Antarctic ice shelf and disintegration of the Greenland Ice Sheet.

Other factors, however, propel us forward towards a clean-energy, climate-friendly future.

Sound law, encompassed in a clear and visionary international regulatory framework can take us far, fast. Global climate agreements and their subsequent national implementation trigger public sector action and send regulatory signals that in turn trigger complimentary private sector responses. At the national level, countries need old-fashioned regulatory measures, including emissions limits on climate forcing agents such as black carbon, and greenhouse gas phase-outs. National-level mitigation should continue to include cap-and-trade, with strict compliance.

Regulations are key drivers for technology innovation, as shown by the Montreal Protocol, which clearly signaled the private sector to innovate when it phased-out 96 chemicals in 240 separate sectors. Once the Parties set a phase-out schedule, industry saw the market they needed to serve, and began immediately to innovate to provide new replacement technologies. They significantly improved energy efficiency along the way.

The other key is application, or implementation. Successful implementation requires a strong financial mechanism (FM) for promoting technology innovation and diffusion to developing countries. Developing countries, on their own accord and assisted by the Kyoto Protocol's Clean Development Mechanism are already contributing significantly to global mitigation. They can and will do more, with the financial and technological support that developed countries have legally committed to provide for this purpose. A financial mechanism can operationalize these commitments into a concrete flow of finance and technology. By transferring know-how and experience when identifying and paying agreed incremental costs for needed technologies, a strong MF will actually solve underlying climate challenges. It can also leverage private sector investment and support, which is estimated to be 80% of the potential technology support available. To do this, the FM must be able to develop its own expertise and experience with technologies needed to address specific sources, sectors, and sinks.

The furthest reaching and most effective post-2012 climate treaty includes more significant commitments by the developed countries, working from the top down. We also must enhance strong national mitigation measures by all countries, working from the bottom up, so that these two spheres of law can merge. A sector-based approach to implementing national measures is a logical place to start and strengthen.

Other features of a successful FM include are:

Democratic decision-making, equal representation of developed and developing countries, and double majority for decisions.

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Operating as a single facility, based on agreed principles of governance that channels flows from numerous financial sources, including bilateral, private investment, foundations, or others. This approach avoids duplication and ensures available resources are applied according to the goals of the Convention. It also allows for the creation of different funds or windows for adaptation, mitigation, and even possibly for venture capital and climate risk insurance. What is critical is that we have one coherent system to manage and guide climate-related funding.

Assurance from donors that the FM would meet all agreed incremental costs of developing countries to implement the climate control and adaptation measures or other commitments; otherwise such measures would be suspended.

Indicative lists of agreed incremental costs. Technical options committees could develop lists of incremental costs on a sectoral basis (agriculture and forests, for example, differing considerably from industry and energy) to promote efficiency, prioritization, and cost-effectiveness.

Country focal points, country programmes, networks, and other institutional strengthening financed by FM to develop expertise and spread best practices, with developed countries also joining networks to help promote exchange of knowledge and experience, mutual assistance, and competitive spirit to achieve agreed goals.

Preparation of country programmes (financed by FM) to set both short- and long-term goals to implement control measures based on a country-specific assessment of regulatory, institutional, technological, and financial capacity, consistent with domestic policy priorities.

Establishment of appropriate regulations and policies through FM assistance to frame necessary regulations and policies, including financial incentives and disincentives.

Assured periodical replenishment of the FM by donors until agreed country goals are achieved, with financial needs assessed every three years by independent technical experts, so Parties can agree on replenishment based on such assessment.

Annual update to Parties based on independent assessment of technology, economics of alternative technologies, and their accessibility, by independent experts with regional representation, and final reports placed before Parties without editing.

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A strong FM is key to avoiding tipping points for abrupt climate change, and for developing and diffusing climate friendly technologies to reach mid- and long-term climate goals. We have a proven model in the Montreal Protocol supporting the features outlined above.

A strong FM also is essential to a successful post-2012 treaty, as it is at the heart of what makes an agreement fair and equitable for all countries of the world.

There is no reason we could not agree, now, on such a financial mechanism, and begin addressing priority sources, sectors, and sinks immediately. This would yield immediate mitigation, which in turn reduces greater adaptation costs down the line. It also would build critical capacity, provide experience with specific technologies we will need to expand to greater scale, and give us the confidence and strength to win the climate race.

Preparation, perseverance and peak performance are all key to winning.

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*This essay is adapted from remarks presented at CC8-Technology and Finance in Climate C-operation 5-6 June 2008, Hafslund Manor, Sarpsborg, Norway, sponsored by Club de Madrid.